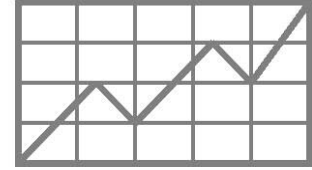


GSI Market View



4th Quarter 1995



Keeping the lid on inflation. Inflation has been under control for several years. In fact, consumer price inflation has been under 3% since 1991, well below the experience of the late 1980's. *So far in 1995, the rate of inflation has stayed below 3%, annualized, which ordinarily is acceptable to the Federal Reserve.* However, the Fed tries to look ahead and if it expects rising inflation due to a strong economy it raises short term interest rates.

This action was taken in February of 1994, well ahead of the steamy economic growth that surfaced in the fourth quarter of that year. By moving short term interest rates up to 6% from 3% in 1994, the Fed caused our economic engine to chug to a near halt in the second quarter of 1995. In July, the Fed reduced short-term rates to 5 ¾%, and that is where they are now. *We believe further reductions will be made, but national budget issues may be delaying decisions.* With additional downward changes, the economy could experience a soft landing and glide into a path of normal growth closer to a 3% annual rate.

This would result in having both long and short-term interest rates at relatively low levels as we move into the important election year, 1996. *Both the bond and stock markets could react positively to a low inflation, steady growth environment.*

If this outlook unfolds, it is possible that long-term Treasury bonds will move toward the 6% level from the current 6.30%. We have said before that long Treasury bonds should range between 6%-7% in 1995. *The stock market might then move higher with selectivity being more important and earnings progress a determinant of favored equities.*

So far this year, our accounts have risen sharply in value due to the double thrust of higher bond prices and higher stock prices. For the year-to-date through the end of the third quarter, our composite equities are up in excess of 42%, with fixed income securities up roughly 15% (It should be noted that these numbers include interest and dividend payments and are shown after expenses have been taken out). Much of the equity performance is due to our market overweightings in *technology, telecommunications, medical and finance* stocks. We continue to review holdings in these areas because the media and pundits constantly express caution regarding "high priced" stocks, especially those in the two first listed categories. Regardless, *we have remained fully invested unless there has been an account requirement to retain a specific level of liquidity.*

Technology stocks - buy, sell or hold? We think this sector continues to possess strong growth prospects for the foreseeable future despite the "overblown" battering experienced recently. NASDAQ technology bellwethers Intel and Microsoft recently reported strong earnings despite the repeated "cry wolf" prognostications of numerous Wall Street naysayers. We do however, believe that current uncertainty regarding technology stocks is warranted because many of these companies are still in the early stages of their growth cycle.

What is important to us is selectivity regarding each individual company. Specifically, our discipline is to focus on the number one or two players in each of the “hot” corners of this sector, thereby controlling the volatility and risk while taking advantage of the long-term growth potential of a number of these well-positioned companies.

So, our answer to the question of buy, sell or hold is to hold. *We do not however, hesitate to reduce individual company exposure when positions become excessive relative to total equity holdings. As well, we are not apprehensive to buy on weakness in the midst of the battering syndrome.*

What’s “hot?” Step back for a moment and look at the “big picture.” In addition to the continuing strong demand for PCs and their components, specifically microprocessors, storage and memory, *corporate America is currently committing an astounding 41% of its capital spending budget to information technology.* Subsequently, what is occurring is a geometric expansion in the demand for networking hardware and software, using the popularity of the Internet as a multiplier. Throw in the opportunities found throughout the rest of the world in these areas, and add to that the projected growth factors for cellular and wireless communications and entertainment and educational software. What you have is a tremendous investment opportunity for the long-term investor.

For the time being, don’t Panic! This recent technology boom has not suddenly become a bust. *Simply remember that many large equity mutual fund managers were late getting into technology and, we think, are early in their exit.* As a result, dramatic swings in both directions have occurred, creating a sense of uncertainty and fear for the individual investor. Again, those who choose to exhibit patience should benefit in the long-term.

Outside the world of Technology 1995 has also been a tremendous year for finance and medical related stocks. Referencing comments in our last letter, those medical companies focusing on *cost containment and medical and demographic trends for the future* will be solid long-term investment vehicles for participating investors. As well, the imminent *decline in interest rates* coupled with a *strong consolidation theme* within their industry should allow finance related companies to continue to outperform the market near-term. *Again, selectivity is critical.*

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